

TOP SECRET

Approved For Release 2004/01/22 : CIA-RDP81B00401R002000090004-0

25X1

15 February 1979

MEMORANDUM

SUBJECT: The Effect of Events in Iran on Turkey

The Turks are deeply concerned over the implications for them of the uncertain situation in Iran, and they are likely to move cautiously until the dust has settled a bit. But only one aspect of that situation--Kurdish dissidence--has the potential to add more than marginally to the enormous problems facing Turkey, and it is these problems that will continue to preoccupy the country's leaders.

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25X1 [redacted]

16 February 1979

MEMORANDUM

SUBJECT: Implications of Iran for India

1. New Delhi's swift recognition of the Bazargan government on February 12 is an attempt to get off on the right footing with the new Iranian regime which Indian officials fear will be less favorably disposed toward India than was the Shah, particularly during the last 5 years of his rule. [redacted]

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2. In recent months, India has been concerned that the surge of Muslim fundamentalism will promote instability in the Persian Gulf region, decrease prospects for better relations between predominantly Hindu India and its Muslim adversary, Pakistan, and foil India's ambition to play a more influential role in the Indian Ocean/Persian Gulf region. [redacted]

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3. Although religious affinity linking India with the Muslim world is absent, New Delhi was making progress, after the onset of the oil crisis in 1973, toward improving relations with Pakistan and its Muslim neighbors in the Gulf. [redacted]

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4. Indian overtures toward Iran were reciprocated by the Shah, despite his suspicion of India's close ties with the USSR. New Delhi, for its part, was apprehensive that the Shah's support for Pakistan could entail the transfer of military equipment to that nation in the event of another Indo-Pakistani war. The Indians were also wary of the Shah's apparent determination to dominate the Gulf and possibly to extend Iran's naval influence into the Indian Ocean, which India considers its domain. [redacted]

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5. Nonetheless, India's need for crude oil imports and its recognition of the Gulf's vast trade and market potential motivated Indian diplomats and businessmen to intensify efforts to establish closer ties with the Persian Gulf states. [redacted]

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6. Iran has traditionally supplied India with oil and petroleum products in return for minerals, jute, tea, and skilled and unskilled manpower. The upswing in economic relations since 1974, however, has involved a broader range

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of Indian exports, including aluminum, steel, cement,  
transmission towers, and power generating units. [redacted]

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7. Iranian funds for completion of the \$700 million Kudremukh iron ore project and for three other proposed joint-venture projects in India now may be in jeopardy. New Delhi is generally apprehensive about the prospects for economic relations with the new Iranian government, fearing its first priority will be to move closer to Islamic countries. Of immediate concern to New Delhi is the interruption of Iranian oil exports—6.5 million tons were expected to arrive in India in 1979. (India's total crude oil requirements for 1979 are 30 million tons, of which 16.5 were to be imported.) The UAE and Iraq have agreed to increase their exports to India, but New Delhi claims it still will face a shortage of 4.5 million tons, with some .5 million tons urgently needed within the next three months. New Delhi has asked the US to encourage the Gulf States to be more responsive to India's needs. [redacted]

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8. According to Indian estimates, several thousand of the estimated 25,000 Indians in Iran have recently returned home. A massive exodus of Indian workers from Iran and other Gulf States, where the bulk of Indian expatriates are working, would substantially reduce the flow of foreign exchange into India, which, with the rise of Indian exports to the region, has contributed to India's record foreign exchange holdings. [redacted]

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9. New Delhi's outwardly optimistic attitude toward the new Iranian government masks an underlying sense of regret at the sudden turn of events. In the last several years, India had come to view the Shah as an important force for regional stability, partly because he had prevailed upon Pakistan not to escalate tension with India and with Afghanistan. Now the Indians fear that the new Tehran government may revert to the older Iranian policy of strongly favoring Pakistan over India. [redacted]

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16 February 1979

MEMORANDUM

25X1 Implications of Iran for the Soviet Role in the Persian Gulf [redacted]

The Soviet Union could ultimately become the major strategic winner in the Persian Gulf as a result of the downfall of the Shah. The Soviets had always considered the Shah a conservative leader who had built Iran into a state of considerable power and influence in the Persian Gulf region and who had worked against Soviet interests there. They attributed an anti-Soviet purpose to the Shah's foreign policy, such as his:

- links with the US, Pakistan, and the conservative Persian Gulf states;
- acquisition of sophisticated military hardware and the increased US military presence;
- successful efforts to improve ties with Iraq which were designed to reduce Soviet influence in Baghdad;
- successful efforts to suppress the Dhofar insurgency in Oman which the Soviets had supported;
- military assistance to Jordan and Pakistan which represented an effort to forestall Soviet influence in the area; and
- sponsorship of a Persian Gulf security pact and an Indian Ocean "zone of peace" which were certainly viewed by the Soviets in a similar context.

The new regime will almost certainly reverse or cut back on most of these initiatives and will embark on policies that will be less threatening for Soviet interests in the area and, in some cases, even unintentionally complementary.

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Both Khomeini and Bazargan have long advocated a nonaligned foreign policy that will presumably translate into policies that will be well received in Moscow. To wit, Iran will presumably:

- cut its ties to the Central Treaty Organization;
- press for higher oil prices in OPEC;

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- [redacted]
- allow formal PLO representation in Tehran and extend support to the Palestinian cause.

The new government, therefore, will be predisposed toward policies beneficial to Soviet interests in the area, although its ideological orientation will be anti-Communist and anti-Soviet. [redacted]

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In a prolonged period of change in Iran, the Soviets would be increasingly inclined to back those forces which they considered sympathetic to their own interests. There are indications that the role played by the Tudeh Party and other leftist elements is growing, and a continued state of instability would provide an atmosphere conducive to the organization and growth of such forces. The Soviets will probably not try to establish direct contacts with the terrorist groups currently operating in Iran, and both the USSR and the Tudeh have already criticized the use of terror as a tool. [redacted]

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The Soviets will have to move cautiously to exploit these new opportunities in the Gulf area, however, because key Arab states--both conservative and radical--already perceive an expansion of Soviet influence in the area. Saudi and Iraqi insecurity, for example, has already been heightened by:

- the toppling of the nonaligned Afghan government in April by a Soviet-trained army abetted by a small number of local Communists;
- the assassination of the North Yemeni president by a South Yemeni, and the coup in South Yemen in June that brought to power a leadership more receptive to the Soviet leadership;

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- the Soviet-Ethiopian friendship treaty in November which will lead to closer bilateral ties and an expanded Soviet presence in Addis; and
- the internal explosions in Iran as well as the increase of radical leftist activity on the heels of these other events.

The Saudi response to this series of events has been to move closer to those radical Arabs--such as the Iraqis--who recognize the Communist threat; the Iraqi response has been to flirt with their own domestic anti-Communist campaign which includes harassment, arrest, and even execution of Iraqi Communists. [redacted]

25X1 The Soviets appear to realize that they must position themselves carefully in order to exploit the opportunities that stem directly from the chaos in Iran. Moscow's first steps to date suggest that the Soviets will resort to a public approach designed to reassure the Gulf states of the USSR's peaceful intentions.

- In late January, the Soviets sent the director of their foreign ministry's Middle East Department to Kuwait, Iraq, the Yemens, Jordan, and Lebanon to stress Moscow's opposition to foreign intervention in the "internal affairs of another state."
- An authoritative article in Literary Gazette on 31 January encouraged Saudi Arabia to reconsider its hostility toward the USSR and to rethink its "special relationship" with the US. The Saudis are in the process of reevaluating their close ties to the US, and the Soviets are obviously trying to exploit this situation by calming Saudi concerns about Soviet intentions.

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The sensitive question of border security with countries that share nationality groups with the Soviets--such as Turkey and Iran--may be another reason for the Soviets to avoid hasty responses to the current turmoil in the Islamic area. [redacted]

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The trends in the region will be mostly favorable to the Soviets even if their responses are minimal. The US and West Europe are already faced with higher oil prices, which is in Moscow's interest. Soviet clients in the area--particularly the radical Libyans, the Marxist South Yemenis, and the stateless Palestinians--will have high-level contacts with the Khomeini government, and presumably serve as middlemen or at least spokesmen for the USSR. The authority of established governments in the region will become more fragile and, as power bases become smaller, the opportunity for Soviet exploitation becomes greater.

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Alternatively, Soviet involvement in the Afghanistan government's response to the kidnapping of Ambassador Dubs indicates that Moscow realizes its own clients in the area are susceptible to the kind of Shia challenge that ultimately brought about the downfall of the Shah. The fact that Soviet advisers were actively giving advice and guidance--and in one case even armed an Afghan policeman with special weaponry--suggests that the Soviets could also become involved in Kabul if the Taraki government faced a direct challenge from the Shias on the right or a faction within the military on the left. The fact that the Soviets were willing to become intimately involved with last week's events in Kabul in full view of US diplomatic officials and to fail to consult with those officials indicates that Moscow may be willing to assume a certain amount of risk in sustaining the current regime. An ongoing rebellion is already taking place in eastern Afghanistan

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MEMORANDUM

SUBJECT: Implications of Iran for Afghanistan

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1. The leftist Afghan regime probably views the events in Iran as a mixed blessing. On the one hand, the pro-Soviet People's Democratic Party of Afghanistan would welcome the demise of CENTO, a weakening in Tehran's ties with the West, and the eventual installation of a leftist government in Iran. Afghan leaders believe that the Shah's government was involved with insurgent groups inside Afghanistan, and have been unhappy that Iran has not implemented massive aid programs discussed several years ago. [redacted]

2. On the other hand, the toppling of a government in Iran by Muslim conservatives is hardly an encouraging sign for the increasingly unpopular Afghan regime. Khomeini has been outspoken in his criticism of the "godless, communist" Takaki government. Since seizing power last April, the PDPA has been challenged by Muslim dissidents who believe the regime is Communist, and therefore atheist. The Moslem Brotherhood claimed responsibility for several assassinations and acts of sabotage last year, and Ambassador Dubs' kidnapers may have been Muslim dissidents. The regime arrested approximately 150 Muslim leaders earlier this month. The victory of Khomeini may well be seen in Kabul as likely to encourage further Muslim opposition to authority on the Afghan side of the border.

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3. Should the new government in Tehran be unable to establish its authority quickly throughout Iran, the present government in Afghanistan might be tempted to meddle in Iranian affairs. One of its most obvious targets would be the Baluchi minority in Iran, which has long resented control from Tehran; fellow tribesmen constitute a large minority in southern Afghanistan. The border between the two nations is long and regarded as porous to infiltration. Strong countervailing pressure against intervention in Iran at this time, however, comes from the Afghan government's internal problems--in particular, its inability thus far to eliminate armed opposition within the eastern provinces.

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SUBJECT: Implications of Iran for Afghanistan

4. The heavy reliance of the present Afghan government on the Soviet Union is firmly established. It is probable, therefore, that Kabul, in its relations with Iran, will continue to be guided by advice from Moscow; in any case the Afghan attitude toward the Khomeini regime, is unlikely to deviate greatly from the attitude of the USSR.

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SUBJECT: Implications of Iran for Pakistan

1. The government in Pakistan has reacted enthusiastically to the establishment of the Khomeini government in Tehran. Recognition was extended quickly and two messages of congratulations and best wishes were sent by President Zia-ul-Haq to Prime Minister Bazargan. Despite these overtures, there is probably some uncertainty in Islamabad about the future course of bilateral relations. The Shah, while occasionally irritatingly paternalistic to his poorer ally, was a known factor in regional relations; Khomeini is not. [redacted] 25X1

2. The alliance with Iran had come under some strains in recent years. Pakistan viewed with consternation some aspects of the Shah's attempts to increase his influence in the area. In particular, his initiatives to improve relations with India in recent years, which were warmly reciprocated by New Delhi, were poorly received in Islamabad. The Iranian government, for its part, regarded Pakistan's recent slide toward non-alignment with concern and was alarmed by reports of tentative Pakistani efforts to reach an accommodation with the Soviet Union. [redacted] 25X1

3. As the Iranian revolution progressed, the Pakistanis established contact with Khomeini through their embassy in Paris. Meanwhile, in Pakistan, the religiously-oriented political parties--small but influential--issued statements supporting the "Iranian people" in their opposition to the Shah's "tyranny." The press, influenced although not directly controlled by the government, treated the assumption of power by the Bazargan government with general approval. [redacted] 25X1

4. Zia, in his messages to the new regime, has emphasized the "simultaneous triumph of Islamic ideology in both of our countries" and predicted that Khomeini's victory "will consecrate the bonds that have traditionally existed between the peoples of our two countries." Zia's devotion to his religion and his determination to impose a form

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SUBJECT: Implications of Iran for Pakistan

of Islamic fundamentalism on the life of all Pakistanis is well documented and received further confirmation last weekend when he announced several fiscal, judicial, and educational measures to bring his nation more in line with Islamic teaching. Zia, at least, seems sincerely convinced that there will be a strong transcendent bond between the nations in the future. [redacted]

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5. There are other more pragmatic reasons why relations between Tehran and Islamabad should remain close in the future. Both nations seem headed toward non-aligned status and withdrawal from CENTO. Pakistan has long wanted to detach itself from the organization but has been reluctant to do so in the face of the Shah's opposition. [redacted]

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6. Both nations face possible insurgencies among the Baluch tribesmen occupying lands on each side of the common border. Continued intelligence and military cooperation in dealing with this problem would be in the interest of both nations. Additionally, the new pro-Soviet government in Afghanistan remains a potential threat to both Iran and Pakistan--particularly if it chooses to stir up dissident elements within the territories of its two neighbors. Finally, both Zia and Khomeini are fearful of Moscow's machinations against their two countries and presumably will want to collaborate against any Soviet drive to expand its influence to the south. [redacted]

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7. The present government in Islamabad will certainly hope that the new regime in Tehran, in view of its devotion to Islamic solidarity, will be more responsive than was the Shah's government in recent years to Pakistani pleas for help against the perceived threat from India. Whether a successor civilian government, probably one under leaders less devoted to Islamic fundamentalism than is Zia, would view the Khomeini government as enthusiastically as does Zia is questionable. The geopolitical factors at work in the region, however, argue for any government in Islamabad to try to maintain the closest possible relations with virtually any non-Communist government in Tehran. [redacted]

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United States -Pakistan Bilateral Agreement of Cooperation of 5 March 1959.

This was a formal, bilateral mutual defense pact. In case of aggression against Pakistan, the United States agreed to take, in accordance with its constitutional process, "such appropriate action, including the use of armed forces, as may be mutually agreed upon... in order to assist the Government of Pakistan at its request." The agreement had the effect of reinforcing the defensive capability of the Baghdad Pact, since the United States signed in March 1959 identical pacts with Iran and Turkey. While Article 1, cited above, is the most important in its scope, Article 2 is of considerable significance in that it provides that the United States will continue to furnish, on an agreed basis, military and economic assistance to Pakistan with a view to helping in the preservation of its national independence and integrity and the promotion of its economic development.

## Pakistan: Breakdown of IMF Talks

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Pakistan's negotiations with the International Monetary Fund for a new \$70 million standby credit have broken down because the government is reluctant to curb budget expenditures—particularly the \$140 million annual wheat

subsidy that keeps down food prices for urban consumers.

The government's hesitancy about going along with the Fund probably stems from its concern that cuts in subsidies could cause consumer unrest and aggravate the current uneasy domestic political situation. Chief Martial Law Administrator Zia-ul-Haq has come under increasing criticism for his assumption of the presidency, and there appears to be general restlessness about Pakistan's uncertain political future.

The government also faces a potentially volatile situation within the next few weeks, when it may have to decide the fate of still-popular former Prime Minister Bhutto. If Bhutto's conviction for a political murder is upheld and if he is executed in accordance with a lower court sentence, his supporters could attempt to launch violent demonstrations.

Pakistan's balance-of-payments situation has improved significantly since the end of 1977, when negotiations with the Fund started, and the government may no longer feel the urgent need for a new standby. An unanticipated \$500 million surge in remittances from Pakistanis

working abroad has helped to slash the current account deficit by nearly \$400 million for the fiscal year that ended in June. Continuing inflows of aid allowed foreign exchange reserves to increase by \$240 million to \$660 million at the end of June.

The breakdown in negotiations with the Fund is likely to affect other international financial negotiations in which Pakistan is involved. The country may have a hard time persuading its major international creditors to extend debt relief because its external accounts have improved. Pakistan's creditors deferred until December a decision on its request for additional debt relief; they cited the need for more details on government economic policy and the new long-term development program.

The government's case for food aid will also come under close scrutiny when Pakistani representatives meet on Monday in Washington with a group of prospective donor countries. Pakistan needs to import 1.5 million to 2 million tons of wheat this year and hopes to obtain about a third of this on concessionary terms.

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